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IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

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SHARPER IMAGE CORPORATION, a Delaware
corporation, and ZENION INDUSTRIES,
INC., a California corporation,

No. C 02-4860 CW
(Consolidated Case)
No. C 04-0529 CW

Plaintiffs,

v.

HONEYWELL INTERNATIONAL, INC., a
Delaware corporation, and KAZ, INC., a
New York corporation,

ORDER GRANTING
PLAINTIFFS' MOTION
TO DISMISS
DEFENDANT KAZ'S
COUNTERCLAIMS FOR
LACK OF SUBJECT
MATTER JURISDICTION

Defendants.

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Plaintiffs Sharper Image Corporation and Zenion Industries, Inc. move to dismiss for lack of subject matter jurisdiction. Defendant Kaz, Inc.'s counterclaims for declaratory judgment of patent non-infringement and invalidity. Kaz opposes the motion. The matter was taken under submission on the papers. Having considered the parties' papers, the Court GRANTS Plaintiffs' motion to dismiss Kaz's counterclaims.

BACKGROUND

Sharper Image is the assignee of U.S. Patent Nos. 6,176,977 ('977 patent) and 6,350,417 ('417 patent), and Zenion is the assignee of U.S. Patent No. 4,789,801 ('801 patent). Plaintiffs apply the technology described in the '977, '417 and '801 patents in their Ionic Breeze Air Purifier product line. Sharper Image and Zenion filed their original complaint on October 8, 2002, alleging that Defendants Honeywell International, Inc. and Kaz had infringed

1 the '977, '417 and '801 patents in developing their Environizer air
2 purifier product line. Sharper Image v. Honeywell & Kaz, C 02-4860
3 CW.

4 In February, 2004, Sharper Image filed a separate complaint
5 against Kaz alleging infringement of three additional patents.
6 Sharper Image v. Kaz, C 04-0529 CW. The two lawsuits were
7 consolidated on April 1, 2004. On April 21, 2004, Plaintiffs filed
8 their consolidated amended complaint. On May 5, 2004, Honeywell
9 and Kaz answered the consolidated complaint separately, and each
10 asserted counterclaims for declaratory judgment of patent non-
11 infringement and invalidity.

12 On May 16, 2005, Plaintiffs entered into a confidential
13 settlement agreement with Honeywell that, inter alia, included a
14 release from all claims in the lawsuit relating to the '977, '417
15 and '801 patents. On June 2, 2005, the Court approved a
16 stipulation of dismissal; all of Plaintiffs' claims against
17 Honeywell were dismissed with prejudice, and all of Plaintiffs'
18 claims against Kaz relating to the '977, '417 and '801 patents were
19 also dismissed with prejudice. In addition, all of Honeywell's
20 declaratory judgment counterclaims were dismissed with prejudice.

21 On June 27, 2005, Plaintiffs filed this motion to dismiss
22 Kaz's declaratory judgment counterclaims for patent non-
23 infringement and invalidity relating to the '977, '417 and '801
24 patents.

LEGAL STANDARD

26 Dismissal is appropriate under Rule 12(b)(1) when the district
27 court lacks subject matter jurisdiction over the claim. Fed. R.

1 Civ. P. 12(b) (1). Federal subject matter jurisdiction must exist
2 at the time the action is commenced. Morongo Band of Mission
3 Indians v. Cal. State Bd. of Equalization, 858 F.2d 1376, 1380 (9th
4 Cir. 1988), cert. denied, 488 U.S. 1006 (1989). A Rule 12(b) (1)
5 motion may either attack the sufficiency of the pleadings to
6 establish federal jurisdiction, or allege an actual lack of
7 jurisdiction which exists despite the formal sufficiency of the
8 complaint. Thornhill Publ'g Co. v. Gen. Tel. & Elecs. Corp., 594
9 F.2d 730, 733 (9th Cir. 1979); Roberts v. Corrothers, 812 F.2d
10 1173, 1177 (9th Cir. 1987).

11 DISCUSSION

12 Plaintiffs argue that the Court lacks subject matter
13 jurisdiction over Kaz's counterclaims because, in light of the
14 settlement agreement and dismissal order, there is no case or
15 controversy relating to the '977, '417 and '801 patents. As
16 applied to declarations of patent rights and relationships, the
17 Federal Circuit has applied a two-pronged test to determine
18 declaratory justiciability: (1) action by the patentee that creates
19 reasonable apprehension on the part of the declaratory plaintiff
20 that it will face an infringement suit, and (2) present activity
21 that could constitute infringement or concrete steps taken with the
22 intent to conduct such activity. BP Chems. Ltd. v. Union Carbide
23 Corp., 4 F.3d 975, 978 (Fed. Cir. 1993). A patentee defending
24 against an action for a declaratory judgment can divest the
25 district court of subject matter jurisdiction by filing a covenant
26 not to assert the patents at issue against the putative infringer.
27 Super Sack Mfg. Corp. v. Chase Packaging Corp., 57 F.3d 1054, 1058

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1 (Fed. Cir. 1995).

2 Here, Plaintiffs' claims against Kaz for infringement of the
3 '977, '417 and '801 patents have been dismissed with prejudice, and
4 under the terms of the settlement agreement Plaintiffs have granted
5 Kaz a release for its Environizer products from all claims relating
6 to the patents. Thus, Plaintiffs argue, Kaz has no reasonable
7 apprehension that it will face an infringement suit based upon any
8 of the formerly-accused products.

9 Kaz argues that it still has a reasonable apprehension that it
10 will face suit because it is obliged by contract to indemnify its
11 customer RadioShack against allegations of infringement for the
12 sale of Environizer products. Kaz notes that Plaintiffs have not
13 released RadioShack from claims relating to the '977, '417 and '801
14 patents. Kaz also argues that it is conceivable, even in light of
15 the settlement agreement and dismissal order, that Plaintiffs could
16 sue Kaz in the future for alleged infringement based upon a
17 different Kaz product. If that were to occur, Kaz contends, it may
18 be precluded from raising an invalidity defense if its
19 counterclaims were dismissed with prejudice here.

20 In its reply brief, Plaintiffs covenant not to sue any of
21 Kaz's customers, including RadioShack, for infringement of the
22 '977, '417 and '801 patents in relation to sales of the accused
23 Environizer products. In Super Sack, the court ruled that a
24 covenant not to sue that was asserted in motion papers had the same
25 effect as a covenant signed by the company itself. 57 F.3d at
26 1059.

27 Kaz's argument that it still has a reasonable apprehension of
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1 facing a future infringement lawsuit relating to the '977, '417 or
2 '801 patents is not well-taken. If Kaz is referring to products
3 that it has not yet manufactured, the Federal Circuit has already
4 rejected an identical argument: "The residual possibility of a
5 future infringement suit based on [] future acts is simply too
6 speculative a basis for jurisdiction over [a] counterclaim for
7 declaratory judgments of invalidity." Super Sack, 57 F.3d at 1060.
8 And, if Kaz is referring to products that it currently manufactures
9 but that are not accused in this action, dismissal of its
10 counterclaims for declaratory judgment will not have a preclusive
11 effect on its ability to assert any defense in a future action
12 accusing products that are not in suit here. See Foster v. Hallco
13 Mfg. Co., Inc., 947 F.2d 469, 479-80 (Fed. Cir. 1991).

14 For the foregoing reasons, Kaz has no reasonable apprehension
15 that it will face suit for infringement of the '977, '417 and '801
16 patents; thus, its counterclaims for declaratory judgment of patent
17 non-infringement and invalidity must be dismissed.

18 CONCLUSION

19 For the foregoing reasons, Plaintiffs' motion to dismiss
20 Defendant Kaz, Inc.'s counterclaims for declaratory judgment of
21 patent non-infringement and invalidity (Docket No. 336) is GRANTED.
22 Kaz's counterclaims are dismissed without prejudice.

23 This order resolves all issues in Sharper Image v. Honeywell &
24 Kaz, C 02-4860 CW. Thus, it is no longer necessary to consolidate
25 it with Sharper Image v. Kaz, C 04-0529 CW. The Clerk shall enter
26 judgment and close the file in Sharper Image v. Honeywell & Kaz,
27 C 02-4860 CW. Sharper Image v. Kaz shall proceed under its

1 original case number, C 04-0529 CW. The parties in Sharper Image
2 v. Kaz, C 04-0529 CW, shall appear for a case management conference
3 in this Court on Friday, March 3, 2006 at 1:30 p.m. The parties
4 shall file a joint case management statement no later than ten days
5 prior to the conference.

6 IT IS SO ORDERED.

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8 Dated: 8/31/05



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10 CLAUDIA WILKEN
11 United States District Judge
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